Exhibit 32

The Economic Impact of Act 41

Responses to the Government's Letter of August 4, 2022

PRESENTED BY
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OVERVIEW

Summary of the August 4 Letter

The Government's letter of August 4, 2022 ("August 4 Letter") reflects six key economic points:

1. The Government claims it is too "complex and difficult" to perform any analysis of the economic impact of Act 41
2. The Government has not provided such an analysis
3. The Government proposes waiting until after Act 41 is implemented to measure its impact
4. The Government asserts that the Act will not have "a direct or immediate effect on the Government's revenues and expenses"
5. The Government characterizes my July 29, 2022 presentation to the Board ("July 29 Presentation") as "a polemical piece that lacks relevant, reliable, or appropriate economic analysis"
6. The Government claims the economic studies I referenced in my July 29 Presentation are "inapposite" and the studies listed on the Board's website are "favorable to the Government's position"

OVERVIEW

Summary of the August 4 Letter

My summary responses to the Government's August Letter:

	Government's claim		Response
1	The Government claims it is too "complex and difficult" to perform any analysis of the economic impact of Act 41	1	Estimating the economic impact of Act 41 is complex and difficult but is both important and feasible
2	The Government has not provided such an analysis	2	My July 29 Presentation provided an initial analysis of this impact
3	The Government proposes waiting until after Act 41 is implemented to measure its impact	3	Waiting until after Act 41 is implemented to measure its impact is contrary to the Fiscal Plan and is economically imprudent
4	The Government asserts that the Act will not have "a direct or immediate effect on the Government's revenues and expenses"	4	Act 41 will have both an immediate (and long-run) effect on the Government's revenues and expenses; my July 29 Presentation provided an initial estimate of its immediate revenue impact
5	The Government characterizes my July 29, 2022 presentation to the Board ("July 29 Presentation") as "a polemical piece that lacks relevant, reliable, or appropriate economic analysis"	5	My review of Act 41 is independent and objective; the economic principles, data, and analysis summarized in my July 29 Presentation are relevant, reliable, and reflect the current state of knowledge based on the available information
6	The Government claims the economic studies I referenced in my July 29 Presentation are "inapposite" and the studies listed on the Board's website are "favorable to the Government's position"	6	The consensus of empirical economic studies are relevant and support my analysis of Act 41, as does the consensus of the studies listed on the Board's website

RESPONSE #1

Estimating the economic impact of Act 41 is both important and feasible

"[P]rojecting Governmental revenue and the direct and indirect impacts that Act 41 may have on public sector revenue, through the Indirect Effect, is a complex and difficult task."

Source: August 4 Letter, p. 3

While modeling the economic impact of policy implementation is challenging, it is not infeasible

The Government relies on the challenges of quantifying Act 41's impact to decide not to undertake any effort to quantify it

Lack of data does not imply the lack of need for, or ability to do any, economic analysis of Act 41's impact

It will be no easier to more precisely estimate the Act's economic impact after the fact

The Government claims confounding factors, such as macroeconomic shocks, make it extremely difficult to isolate the effect of policy changes such as those in Act 41

The same confounding factors will exist after the fact as exist now

For the same reason it is difficult to precisely estimate the specific impact of the 2017 Labor Reforms

RESPONSE #2

My July 29 Presentation provided an initial analysis of Act 41's impact

Loss of EITC benefits implies a significant impact of Act 41 on GNP and Government revenue

The Fiscal Plan relies on economic benefits from structural reforms, including increased labor force participation in response to incentives to work created by Earned Income Tax Credit (EITC) benefits

- Projected to increase real GNP growth by 0.15% every year after 2025 (*2022 Fiscal Plan, p. 16*)
- This increase depends on sufficient labor demand and job creation to absorb the increased labor supply

By discouraging labor demand and job creation, implementation of **Act 41 will attenuate the EITC's effects**

Therefore, I estimated the impact on GNP growth and revenues of excluding EITC benefits from the Fiscal Plan:

In Percent Terms	Short-run Cumulative Change (2022 - 2026)	Long-run Cumulative Change (2022-2051)
Real GNP Growth Rate	-0.37%	-4.03%
Total Commonwealth Revenues - post measures	-0.60%	-25.12%
In Dollar Terms ($ Millions)		
Real GNP	-$86	-$3,243
Total Commonwealth Revenues - post measures	-$156	-$8,165

GNP Impact:

- Immediate decline of **0.37% in real GNP for 2022-2026**
- Cumulative decline of **4.03% over the 30 years** covered by the Fiscal Plan

Revenue Impact:

- **$156 million decrease for 2022-2026** (a 0.6% reduction from base-case revenues)
- **$8.17 billion decrease through 2051** (a 25.1% decrease)

EITC expansion is only one of the labor market structural reforms incorporated into the Fiscal Plan's GNP growth and revenue projections; therefore, it may not reflect the full economic impact of Act 41

RESPONSE #2 (CONT.)

The Government has not provided any such analysis

The Government's view that the effects can only be measured after Act 41's implementation is misleading

Prior economic studies and available data provide estimates of Act 41 impacts

Estimates of directional effects are useful for understanding potential impacts

"Unless and until Act 41 is actually in place and its actual effects are measured, this dispute is merely an abstract difference of opinion over policy with neither view entitled to a presumption that it is more rational than the other."

"...there is no economic model that can precisely forecast Act 41's effects..."

"This is compounded by a lack of economic data in Puerto Rico that could support corresponding models."

Source: August 4 Government Letter, pp. 2-3

It is important for the Board to understand Act 41's directional impact and significance for the projections in the Fiscal Plan

This is not about trying to "precisely forecast" its effects

- Economic models in this context inherently involve estimation limitations, but those limitations do not mean nothing can be done; it is not all-or-nothing
- I have provided an initial analysis so far
- More detailed analysis could be done with more time and information

The Government could do such an analysis right now

- The Government has had significant time to study Act 41 impacts between the introduction of House Bill 3 and the implementation of Act 41
- The Government has access to the best resources and data to study the potential impacts of Act 41

RESPONSE #3

Implementing Act 41 before estimating its impact is economically imprudent

The Government claims it is "most reasonable and prudent" to implement the Act, measure its impact, and "then determine whether any adjustments are necessary.”

Source: August 4 Government Letter, pp. 1-2

It is not sound policy to let the impact of the Act take place and then purport to measure whether it was significantly detrimental

- It is economic best practice to estimate budgetary impacts of potential legislation before it is enacted
- By then, the significant negative impact the Board anticipates to the economy, and therefore to its ability to meet the objectives of the Fiscal Plan and the Plan of Adjustment, will have started and may not be able to be undone easily or at all
- As pointed out previously, it will not be more feasible to precisely identify the impact of Act 41 after its implementation than it is before hand

It is economically imprudent to implement, as a social experiment, policies that the Government’s economic consultants:

- Describe as “interventions that increase employer costs”
- Acknowledge “[o]rthodox economic policy would typically argue against”

Source: DevTech Report, p. 3

RESPONSE #3 (CONT.)

It might not be possible to undo the negative impact of implementing Act 41

The Government claims it is "most reasonable and prudent" to implement the Act, measure its impact, and "then determine whether any adjustments are necessary."

Source: August 4 Government Letter, pp. 1-2

The Government has not presented any evidence of why an unorthodox economic approach would work for Puerto Rico contrary to economic principles and real-world experience elsewhere

- The Government's claim *(based on the DevTech report, p. 4)* that monopsony power in Puerto Rico would lead to employment increasing as a result of Act 41 is not convincing
- Much of Puerto Rico's employment is already impacted by its minimum wage, which is higher relative to market conditions in other US jurisdictions

Available empirical evidence on economic conditions in Puerto Rico and economic experience in other labor markets implies increasing employer costs are economically detrimental to:

Employment opportunities available to workers

Economic growth

Government revenue

RESPONSE #4

The economic impact of Act 41 will not be limited to the private sector only

The Government claims Act 41 "should not have a direct or immediate effect on the Government's revenues and expenses" because it "regulates private employer relations with private employees."

Source: August 4 Government Letter, p. 2

This ***does not mean*** the Act will have no "immediate effect" on employment, economic growth, and Government revenues

- The analysis in my July 29 Presentation points to the negative impact increasing employer costs and restrictions will have on job creation
  - It includes an estimate of the negative short-run impact of Act 41 on both GNP growth and government revenue in Puerto Rico
- Reduced job creation and employment implies lower government tax revenue

There is no imaginary wall between the public- and private-sector labor markets

- Workers can move between sectors, so norms and expectations in one sector impact norms and expectations in the other
- Since workers can also move from Puerto Rico and the mainland US, reducing employment opportunities risks increased outmigration

RESPONSE #4 (CONT.)

Act 41's provisions counter the provisions of the Fiscal Plan

"If the Board's revenue concerns materialize, either the Government could adopt additional amendments to Act 41, or, alternatively, the Board could recertify the Central Government's fiscal plan to reflect the presumably lower revenues and the corresponding expense reductions."

Source: August 4 Letter, p. 2

Forcing the Board to amend the Fiscal Plan in response to a negative economic impact of Act 41 is not a solution

- It is directly contrary to the construct of PROMESA where laws are supposed to fit within the Fiscal Plan, not vice versa
- It is exactly what the Board is trying to prevent given the lack of any empirical evidence as required under PROMESA to support the Government's claim of no negative impact

The beneficial effects of the 2017 Labor Reform are an important basis for the projections in the 2022 Commonwealth Fiscal Plan:

"Its repeal would discourage new hiring and reduce the labor market flexibility, thus limiting the effectiveness of the EITC expansion in promoting labor force participation, economic growth, and the revenues associated with that growth. Therefore, the Government must refrain from repealing Act 4-2017 or enacting new legislation that negatively impacts labor market flexibility."

2022 Fiscal Plan, p. 79

RESPONSE #5

My analysis is independent, objective, relevant, and reliable

The findings in empirical economic studies are informative for Act 41 impacts

> "To the extent that economic data is unavailable, or no such analysis has been performed, the Government asserts that the Oversight Board's determinations are simply arbitrary and aimed at frustrating the public policy of the elected Government officials as expressed through Act 41."
>
> *Source: August 4 Letter, p. 4*

By this rationale, *any* analysis not directly based on data for Puerto Rico is "arbitrary"

Given the unavailability of certain data for Puerto Rico, the Government's position implies non-arbitrary analysis is essentially impossible

The consensus view emerging from empirical evidence reported in economic studies of policies similar to Act 41 is relevant and informative

RESPONSE #5 (CONT.)

My initial estimate of Act 41's impacts directly relies on the Fiscal Plan model

The Government claims it "on multiple occasions requested that the Board provide the underlying economic models and data that underpinned the Labor GNP Estimate used by the Board in reaching its determinations."

Source: August 4 Letter, p. 2

It is not clear from their letter what the Government is referring to as "the Labor GNP Estimate"

- I relied on the "Human Capital and Welfare Reforms" component of the Fiscal Plan model – which is what the Government seems to reference
- I am not aware of any other explicit implementation of labor reform effects in the Fiscal Plan model

The "Human Capital and Welfare Reform" component of the structural reforms included in the Fiscal Plan model is projected to increase GNP growth by 0.15% every year after 2025

This impact is exactly the part of the model on which my analysis relies to estimate the economic impact of Act 41

RESPONSE #6

My analysis of Act 41 is supported by the consensus of empirical economic studies

"The Government is particularly surprised by the Triest Presentation's reliance on a World Bank research paper from 1991 which uses inapposite Zimbabwe and India data from the 1970s."

Source: August 4 Letter, p. 4

The lack of appropriate data and studies pertaining directly to Puerto Rico necessitates the use of studies based on other countries and time periods

- It is common practice in academic research and policy discussions to consider studies based on other jurisdictions as useful for more broadly predicting impacts of similar interventions

The appendix to my prior presentation to the Board lists numerous empirical studies, but my analysis does not singularly rely on any one study - or only on those studies

The Government has neither provided nor relied on any empirical economic studies

RESPONSE #6 (CONT.)

The consensus of studies on the Board's website recommend against Act 41's reforms

The Government points to "relevant studies" under The Study of Economic Development in Puerto Rico section of the Board's website it claims are "favorable to the Government's position."

Source: August 4 Government Letter, p. 4

The studies on the Board's website provide a limited overview of labor reforms in Puerto Rico or in other countries or states

Most of these studies highlight the risks of government interventions that increase employer costs and restrictions
- Only two minimum wage studies find a weak negative impact and reduced outmigration, respectively

"A Stakeholders' Plan for Achieving the Puerto Rico 2025 Vision"

- Recommends reducing the tax burden and other costs on small/medium firms in order to stimulate growth and employment generation *(p. 29).*
- Acknowledges that "excessive regulations limit employers' incentives to create jobs" *(p.41).*
- Suggests reviewing "labor and other regulations to allow for increased flexibility in the labor market, while maintaining essential protections" *(p. 41).*

The changes proposed in Act 41: "Report on the Competitiveness of Puerto Rico's Economy"

- Recommends "reducing barriers to job creation and labor force participation" *(p.19).*
- Acknowledges that the relatively high minimum wage in Puerto Rico is damaging for employment prospects of young and unskilled workers *(p.19).*
- To alleviate this problem, it suggests implementing a young-worker subminimum wage, which "would create an incentive for firms to hire younger workers and provide training at early stages of their working lives" *(p.19).*

CONCLUSION

The August 4 Letter does not change my view on the economic impact of Act 41

The Government's claims in the August 4 Letter:

- ✗ Do not change my qualitative assessment of Act 41's economic impact
- ✗ Do not offer any new evidence that change my quantitative assessment of Act 41's economic impact

Therefore, based on my prior analysis and my review of the August 4 Letter, I remain confident that:

- ✓ My initial estimate of Act 41's economic impact is directionally correct
- ✓ Act 41 will have a sizable negative impact on GNP growth and Government revenue
- ✓ The four primary conclusions I presented to the Board in my July 29 Presentation, and listed again in the following slide for reference, remain correct

CONCLUSION

The four primary conclusions discussed in my July 29 Presentation remain correct

My review of **Act 41** leads to four primary conclusions about its economic impact:

1

The structure of Puerto Rico's labor market makes Puerto Rico especially vulnerable to **decreases in formal sector employment** from enactment of Act 41, especially given historical labor market performance, ease of migration to the mainland US, and a large informal labor market

2

Re-establishing labor restrictions under Act 41 reduces labor market flexibility, and **negatively impacts labor force participation, GNP growth, market competition, and corresponding tax revenues** – all of which runs counter to the structural reforms on which the Fiscal Plan relies

3

The provisions in Act 41 related to employment protection and unjust dismissals will have a significant negative impact on employment and GNP by **creating uncertainty**; employees typically value such protections at less than the cost to firms of providing them

4

The structure, costs, and risks of certain labor provisions in Act 41 **discourage new hiring and will significantly reduce the Earned Income Tax Credit (EITC) expansion's effectiveness** in promoting LFP, economic growth, and the Government revenues associated with that growth

As a result, the provisions of Act 41 are **inconsistent with the requirements and objectives of the Commonwealth Fiscal Plan ("Fiscal Plan") and Plan of Adjustment**

Presented By

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- Previously, led the Macroeconomic Applications and Policy Studies group and was Director of the New England Public Policy Center at the Federal Reserve Bank of Boston
- Research primarily focused on labor economics and public policy
- Recent work focuses on the intersection of economic circumstances and educational outcomes as well as the impact of long-term unemployment on household finances
- PhD in economics from the University of Wisconsin-Madison and BA in economics from Vassar College